OPEN MEETING AGENDA ITEM

0000090247

ORIGINAL

Groom Creek Water Users Association
4209 S. Adeline Dr.
Prescott, AZ. 86303
November 7, 2008

Arizona Corporation Commission
DOCKETED
DOCKETED BY

RECEIVED
2008 NOV -7 P 12: 48
AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
Water Utilities Division
1200 W. Washington St.
Phoenix, Arizona 85007

Attn: Chairman Mike Gleason
Commissioner Kristin Mayes
Commissioner William Mundel
Commissioner Jeff Hatch-Miller
Commissioner Gary Pierce

Reference: Docket No. W-01865A-07-0384
Docket No. W-01865A-07-0385

Re: *Groom Creek Water Users' Association (GCWUA)*

Dear Commissioners:

Based on some of the discussion by the Commissioners at the October 15, 2008 hearing regarding our rate case, the primary problem was the objection to the base rate increase from $ 14.00 to $ 50.00 per month, an increase of $ 36.00 in one step. This was evident by Commissioner Mayes statement of "rate shock", the subject of which is addressed in other correspondence to the Corporation Commission over the past few weeks. It was suggested that this project be considered by completing it in phases and to do smaller increases in the base rate over a period of time. The Board has decided to analyze this option and determine the financial impact on the project to see if this option is feasible.

Our analysis indicates this option is <u>NOT</u> feasible for the following reasons:

1. This approach would cost the Association an additional $ 664,080.00 more than completing the project in one phase (see page 3).
2. The entire project would require a time span of at least <u>six years</u> to complete.
3. The time span required to phase this project may not be compatible with the Yavapai County paving project which is scheduled to be completed in 2012.
4. Due to inflationary costs and that each phase of the project would need bids, the Association would have to apply for three separate rate increases to accomplish this task and the ACC would have to guarantee us these rate increases as a minimum, in order to complete the project.
5. The final phase would require a base rate of $ 60.00 to $ 64.00 per month, <u>an increase of up to $14.00 per month higher than the current projected base fee your own staff recommended to complete this project in one phase (see page 2) . Project costs would be prohibitively higher if the work is done after any roads are paved by Yavapai County.</u>
6. It would require about 15 months to process each rate increase through the system at a cost of up to $ 15,000.00 to the Association for preparation and legal fees. The rate applications would have to overlap each other to maintain any kind of expediency to meet even the six year plan.
7. Phasing the project does not solve the many operational problems that currently exist in maintaining the system until the last phase is completed.

8. It is questionable that the older sections of pipe will survive until it can be replaced considering the current frequency of repairs. In addition, the engineering staff has testified that additional stresses placed on older pipe as a result of higher pressures and connection problems could result in additional problems and is not a recommended course of action.
9. There is tremendous community support to complete this project now as evidenced by the high number of letters sent to the commission over the past few weeks, contrary to what the commissioners thought at the October 15th hearing based on the defective petition that was presented only to the commission by Ms. Berry.
10. Other projects now in progress in the current economic climate are experiencing construction bids coming in at or below expectations. This current window of opportunity is only expected to last a short period of time.

For all of the above reasons with the financial costs being of primary importance, the Board of Directors cannot recommend a phased course of action to the residents of the community. It would be a breach of our fiduciary responsibility in guiding the Association. The Association will never be able to obtain the low interest finance costs that are available now. The construction bids are expected to be the lowest obtainable in the current economic climate.

The following discussion is how we arrived at our financial conclusions. There has to be some assumptions made to complete an analysis and there are many options to choose from. It is felt our assumptions are reasonable although you can pick any parameters you wish.

Assumptions for Financial Analysis:

1. The starting point for comparison is based on the ACC Staff financial data as presented in the July 7, 2008 report, Schedule BCA-6. This data is the Staff analysis required for the $ 1.6M project to be completed as one project with a new $ 50.00 base fee and assorted new commodity rates. The financial loan was based on a 20 year term and 4.9% interest.
2. A phased scenario was picked for comparison. It was arbitrarily decided that there would be three phases. The first phase would cost $800,000.00. There would be two follow on phases costing originally $ 400,000.00 each, but would be adjusted for inflation and mobilization at a rate of 10%/year. See Table 1 for details.

Table No. 1: Construction Loan Cost by Phases

Phase	Cost	Loan Term	Interest Rate	Approx. Time Frame
1	$ 800,000.00	20 years	4.9%	2009-2010
2	480,000.00	20 years	6.9%	2011-2012
3	560,000.00	20 years	6.9%	2013-2014
Total Cost	$ 1,840,000.00			6 years

Table No. 1 reflects the actual estimated construction costs and does not include loan fees and debt service reserve. Table No. 2 listed below is a table that shows the expected new Base Rate over time as each phase is added. It is assumed above that the interest rate will increase 2% above the current 4.9% rate, but we held that rate for phase 3 as well. The finance costs will escalate if the interest rate is assumed to be higher. It was difficult to compute an exact new base rate since there is a portion of the income generated by the commodity rates. Therefore, each phase has a base rate range associated with it. The base rates were calculated on the same basis as that used by the ACC Staff in that the base fees accounted for 65% of the total required revenue stream and the rest came from water usage.

The Association asked WIFA to provide estimated annual finance costs based on the different loan scenarios (loan amounts and interest rates) we chose. The annual finance cost per year reflected on Table No 2 was provided from WIFA and includes the required debt service reserve costs. The first entry in Table No 2 is the cost to perform the project as a single activity. This data is the same data used in the ACC Staff report issued July 7, 2008. It should also be noted that for all phases, the commodity rates are constant and as set by the ACC Staff.

Table No. 2: Finance Comparison Costs And Required Base Rate

Project Type	Loan Amount ($)	Loan Interest Rate (%)	Loan Term (Years)	Annual Finance Cost ($/Yr.)	New Base Rate ($ /Month)
Single Project	1,600,000.00	4.9	20	150,780.00	50.00
Phased approach	1,840,000.00				
Phase 1	800,000.00	4.9	20	75,384.00	32-36.00
Phase 2	480,000.00	6.9	20	53,196.00	45-49.00
Phase 3	560,000.00	6.9	20	62,052.00	60-64.00*

*total estimated rate increase to cover finance costs for all three phases

As you can see from Table No.2 the base rate is estimated to increase to as much as $64.00/month under the phased approach which is $14.00 higher than completing the project as one phase. The actual construction costs are expected to be $240,000.00 higher due to inflation and additional mobilization costs. This translates to an additional $664,080.00 cost to the Association when you include loan and reserve costs. If the pipeline replacement occurs after the roads are paved, the estimated cost is expected to escalate to $6,000,000.00 based on actual recent repair costs.

In summary, neither the Board of Directors nor can most of the affected residents, accept a phased approach to this problem for the reasons previously discussed. We do not feel it is prudent to spend over $600,000.00 in additional costs to accomplish the same objective by spreading out the project. Our analysis also reinforces Chairman Gleason's comments made about the project on October 15, 2008 regarding increased costs and the fact this project needs to be done now.

If you have any further questions regarding the compilation of these facts and figures, please contact Mr. Kal Miller at 602-725-3001.

Your swift approval of this project would be greatly appreciated.

For the Board of Directors

Kal Miller

Kal Miller
Secretary

Cc: Jerry Hodgson, Loren Greenberg, Dean Clemit, Ernie Serano, Jr., LeRoy Sites, Todd Starr, Ernest Alldredge, Cindy Tirotta, M. Goode, WIFA